



FITCH WIRE

Serbia Election Means Continuity in Economic Policy and Reforms

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Fitch Ratings-London-26 June 2020: The victory of President Alexander Vucic's Serbian Progressive Party (SNS) in the 21 June election should ensure continuity in macroeconomic policy, but a marked quickening in structural reform is unlikely, Fitch Ratings says. Coherent and predictable policymaking has supported Serbia's relative resilience amid the coronavirus pandemic, but structural weaknesses will still weigh on trend GDP growth.

Based on preliminary results, the SNS is set to increase its representation to around 191 seats in the 250-seat parliament on 62% of the vote. The election, postponed from April due to the coronavirus, was boycotted by the main opposition party, the Party of Freedom and Justice (SSP), which claimed the vote was neither free nor fair. However, fears the election would be disrupted by widespread anti-government protests did not materialise.

Opinion polls consistently pointed to an SNS victory and we anticipated broad continuity in both macroeconomic policy and governance when we affirmed [Serbia's 'BB+'](#)/Stable sovereign rating on 27 March. Enhanced policy credibility (underpinned by an IMF Policy Coordination Instrument) has supported macroeconomic stability (and positive rating actions) in recent years, including lower inflation and higher foreign exchange buffers. Fiscal discipline has meanwhile created space for a

Lower GDP largely explains our wider 2020 deficit forecast, now at 5% of GDP compared with 3.2% at our review but still below the 'BB' median deficit of 7.5% of GDP. We forecast GDP growth to recover to 5.7% next year and the general government deficit to narrow to 1.6% of GDP, but risks are tilted to the downside.

It is still unclear whether SNS will seek a broader coalition with smaller parties, potentially with a view to countering accusations that the boycott by the main opposition weakens its political legitimacy. However, we expect this would have only a limited impact on reform dynamics, given the dominance of SNS in any coalition or alliance.

Despite the strengthened position of SNS in parliament, we think adoption and implementation of structural reforms is unlikely to accelerate significantly, keeping potential GDP growth somewhat below peer medians. Reforms are advancing in specific areas such as public financial management, tax reform, and the sale of Komercijalna Banka. But the election in our view will not fundamentally change issues of technical capacity and political ownership that have held back broader reform implementation.

There has been only gradual progress in EU accession, with the chapters on the rule of law and Kosovo the most problematic. President Vucic has restated his commitment to Serbian accession since the election, but we continue to expect a long delay to the 2025 target date.

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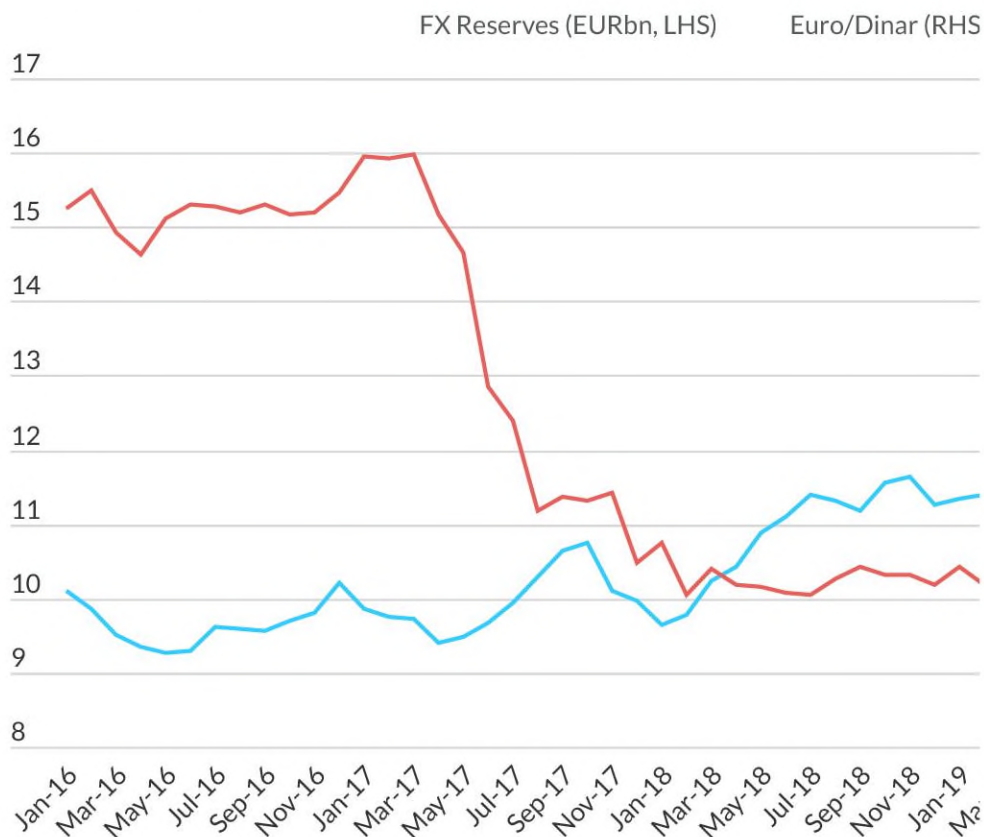
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counter-cyclical response to the crisis.

Balance of payments developments have been largely in line with our March assessment, with FX-interventions remaining moderate at EUR0.25 billion in May. Last month's EUR2 billion, seven-year Eurobond issue has helped lift FX reserves to EUR14.3 billion from EUR13.1 billion at end-March. Serbia's minimal exposure to tourism and the benefit of low energy prices help support the rating in the face of the coronavirus shock and we forecast the current account deficit will narrow 1.2pp this year to 5.7% of GDP. Net FDI is projected to drop to 4.4% of GDP from the eight-year high of 7.8% in 2019.

Serbia Exchange Rate and FX Reserves



Source: Fitch Ratings, NBS

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Serbia's small, open economy however is exposed to the Eurozone, and its relatively high foreign currency external debt is a ratings weakness. We now forecast real GDP to contract by 3% this year, compared with the 0.2% expansion we forecast at our March rating review, reflecting downgrades to our Eurozone forecast since March.

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important topic in the two countries political dialogue, the Beta news agency reported.

In his online lecture about Serbia – US relations within the two countries' academy for leaders, Dacic said he saw the US as "an important partner in reaching a lasting solution," acceptable to both Belgrade and Pristina, reiterating his country "remains open to further talks."

"Looking at our relations, one should be realistic and admit that asymmetry has always been there. But, despite that, Serbia has shown that a small country can be an American ally and an important friend," Dacic said.

Thus, he added, the Belgrade – Washington relations should be looked at on a broader perspective and "point out examples from our common history as the best way to change wrong perceptions we have created about each other."

Dacic recalled that Serbia and America would mark 140 years of diplomatic relations in 2021.

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